Briefing Note for Panellists

The Fowler Inquiry into Provision for Retirement and the Pension Reforms of 1986

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Prepared by Aled Davies, James Freeman, Thomas Gould and Hugh Pemberton

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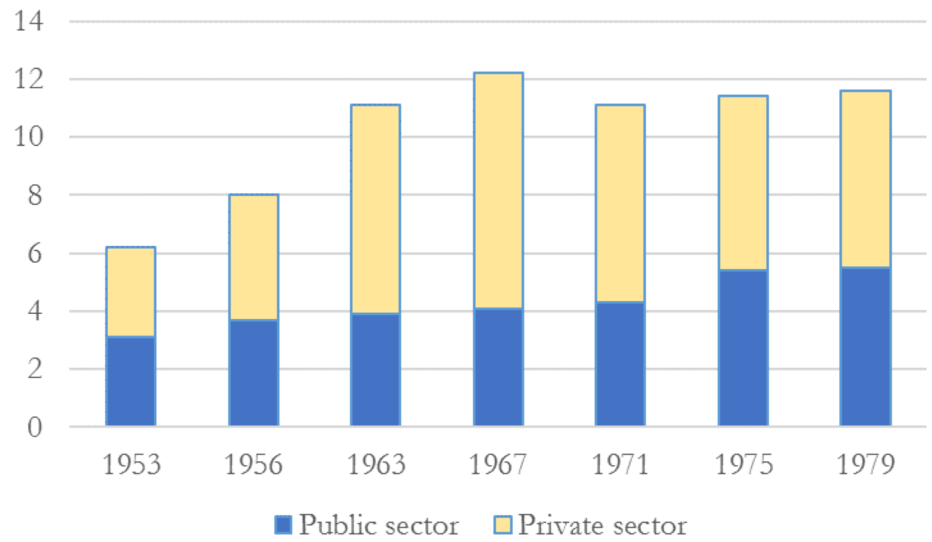
The election of a Conservative government on 4 May 1979 under the leadership of Margaret Thatcher marked a significant moment in the politics of postwar Britain generally, but also for its pension system. The subsequent decade in which she was Prime Minister witnessed a radical overhaul of the consensual economic and social policies that had characterised the decades since the late-1940s. Amongst their many reforms, one of the Thatcher governments' most radical achievements was the reform of Britain's pension system, most notably through the 'personal pensions revolution' (although that revolution was in fact a good deal less revolutionary than its main architect had intended, inasmuch as personal pensions were installed as a new element in the system rather than as a replacement for both the then State Earnings-Related Pension and occupational pensions). The following briefing note is designed to contextualise some of the reforms undertaken up to 1986 and to highlight some key questions that we hope to discuss at the witness seminar.

Britain's Pension Consensus in 1979

When the Conservative government entered office it inherited a political consensus that supported and maintained a partnership between the state and employers in pension provision. The Basic State Pension (BSP), which had been established by the 1946 National Insurance Act essentially on the lines recommended by Beveridge in 1942 but with adjustments which meant it was effectively a 'pay-as-you-go' state-run contributory scheme, provided a minimal flat rate pension to all contributors (and, if male, their widow) from state retirement age until death. On top of this universal provision it had been expected by Beveridge that individuals would prudentially make additional pension savings in order to provide for a more comfortable retirement. In the post-war decades this secondary tier primarily took the form of occupational pensions, in which employers and employees contributed to collective pension schemes (which, except for some public sector schemes, built up an invested fund out of which pensions would later be paid). Such occupational pensions gave retired workers a pensionable income that was related to their earnings, and was usually tied to their final salary (i.e. they were 'defined benefit' schemes).

Figure 1: Active members of occupational schemes (millions)



Source: Pension Trends *(2014), ch.7.*

Over the course of the post-war period the number of individuals enrolled in occupational schemes increased substantially. By 1953, 29 per cent of the total workforce was a member, by the late-1960s just over half, at which level it remained in 1979 (see Figure 1). Many factors drove this growth. One driver was the tight labour markets of a thriving post-war economy; in an era when workers lost their pension entitlement if they left their job pensions provided a good way for employers to tie workers to the firm. Also very significant, however, was the provision of tax relief on employer and employee contributions (first introduced in 1921), National Insurance rebates for occupational schemes contracting-out of the state earnings-related pension (first introduced in 1961), plus relief on interest, dividends and capital gains on fund investment. These tax reliefs and rebates, designed to encourage the expansion of occupational pension coverage, were supported by successive Labour and Conservative governments.

For the remainder of the workforce not enrolled in a workplace scheme in 1979, there was the State Earnings Related Pensions Scheme (SERPS). This had been introduced in 1978 as a development of earlier, much less-generous, earnings related state provision (the 1961 'Graduated Retirement Benefit') that had acted as a rather inadequate 'backstop' covering workers not lucky enough to be in an occupational pension scheme (it had been explicitly designed to use current earnings-related contributions to pay the pensions of workers retiring after the end of the 10-year transition to full BSP entitlements after 1958). Like its predecessor, SERPS was not 'funded' and did not invest in the market, it was a 'pay-as-you-go-scheme' in which contributions were recycled through the national insurance fund to pay present-day benefits

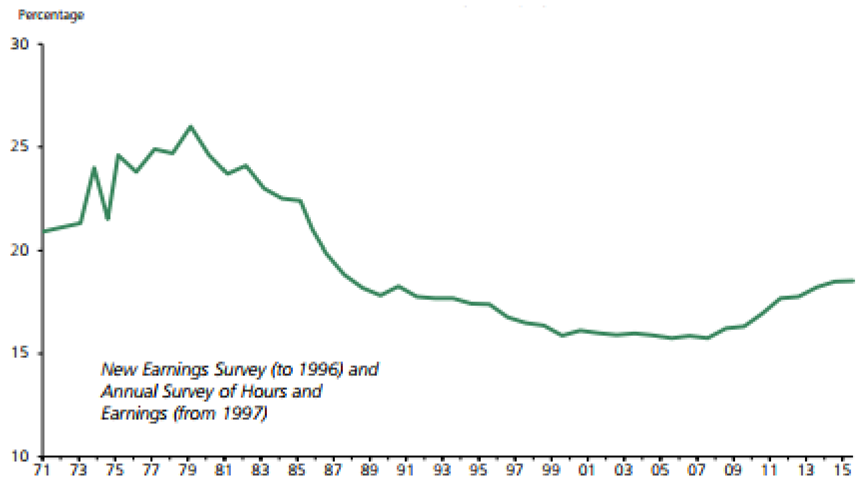
But SERPS did offer an earnings-related top up to the basic state pension that would in combination with it provide to a worker retiring after forty years of service a pension of about fifty per cent of their income (as many occupational schemes did). SERPS therefore operated in parallel to occupational pension schemes, which were allowed to 'contract out' of it as long as they offered final salary defined benefits at least as good (by 1979, 14,494 schemes had done so).

Each of the three components that constituted the late 1970s pension consensus – the basic state pension; occupational pensions; and SERPS – were exposed to the Thatcher revolution.

1. Basic State Pension

One of the first actions of the new Conservative government was to alter the indexation of the BSP. Under the previous Labour government, its annual up-rating had been tied to that year's increase in prices or average earnings, whichever was higher. However, the new government's 1980 Social Security Act broke this link between pensions and incomes by moving to indexing to prices alone. In the long run, as can be seen clearly in Figure 2, this served radically to reduce the value of the BSP in relation to average earnings, with much of that decline coming in the 1980s.

Figure 2: Full Basic State Pension as a proportion of average earnings



Source: House of Commons Library, Briefing Paper SN02657: Pensions and Pensioners' Incomes *(2016)*

From the Treasury's point of view, breaking the link to earnings had both short- and long-term advantages. In the short-term, it represented an opportunity to cut current spending in a difficult economic climate. The Treasury estimated that an extra £100 million would be required if the reforms were not in place by 1980. Prices-only indexation allowed cuts to the social security budget whilst meeting the government's election pledge to protect pensioners from inflation. Indeed it was important for the incoming government as a means of mitigating the effects of its plans to switch towards indirect taxation, since this would increase the cost of living. But prices-only uprating was also desired by those in the government who wanted to ensure that pensioners would no longer benefit from annual up-ratings above the increase in average earnings and thus benefit from a long-term upwards ratchet effect. The fear, expressed for example by the Chancellor's adviser Adam Ridley, was that in conjunction with the prospective twenty-first century retirement of the baby boomers and rising longevity an increasing burden would be placed on British workers. More broadly, of course, the Thatcher government was also committed overall to reducing the size of the state, and the level of its total expenditure, and reducing the dependence of Britons upon it.

Breaking the link to earnings was not without political risks. Paradoxically, however, it was the desire to minimise those risks that lent a sense of urgency to making the change. Taking a difficult decision early in the electoral cycle had the advantage of getting the political controversy over with and, given the uptick in inflation produced by the switch to indirect taxes coupled with the OPEC II rise in energy prices, could be implemented without being immediately noticed by pensioners since it was likely that prices would run ahead of earnings in the short term. Thus, following some initial Cabinet hesitation, the decision was made to move to prices-only uprating in the 1980 Social Security Act.

Questions for Consideration

- When did the Conservatives decide to re-index the basic state pension to prices rather than average earnings?
- Was the policy originally intended merely as a temporary measure?
- Did the government consider the long-term implications of the change both in terms of state spending on the BSP and in terms of its level vis-à-vis average earnings?

2. Occupational and Personal Pensions

If the Conservatives' first term was about such incremental changes (albeit changes that had very significant cumulative effects over the longer-term) its second term was to be significantly more ambitious.

The 1986 Social Security Act gave all individuals the right to leave their occupational pension scheme, or the state-run SERPS equivalent, and put their pension savings into a 'personal pension'. This policy of individualising pension was the government's flagship pension reform of the 1980s and was closely related to its broader aim to create a property and capital owning society.

The 'personal pensions' policy had its origins in the impact of inflation on occupational pensions during the 1970s and 1980s and the so-called 'early leaver problem'. The iniquity of workers losing their pension entitlement on a change of employment had been removed by the 1973 Social Security Act, under which if an individual had worked for an employer for at least 5 years and decided to leave the firm then the contributions they had made to their occupational pension and the pension rights so accruing were required to be 'preserved' by the scheme until his/her retirement age (the Act also introduced the ability, not often exercised, to transfer an accrued pension to the scheme of a new employer). That represented a significant advance, but it was not without problems. One issue was that 'preservation' meant the employee missed out on the benefits of progression in their subsequent career, but the main problem was that inflation served to erode the value of the future benefit, unless the previous employer was generous enough to offer compensatory rises. The post-1973 inflation shock highlighted that employers were under no obligation to up-rate preserved pensions in line with price rises. This was deemed by many experts and campaigners (and, not surprisingly, by those whose occupational pensions were thereby slashed in terms of their real value) to be deeply unfair.

Throughout Mrs Thatcher's first term the government and the pensions industry debated how to resolve the early-leaver problem at length, but to no avail. That was to change in the government's second term. The recommendation of the Occupational Pensions Board (OPB) that pensions should be compulsorily inflation-proofed up to 5 per cent per annum, though resisted by pension providers, was supported by the Secretary of State for Health and Social Services, Norman Fowler, and came into force in 1991 under the terms of the 1985 Social Security Act.

Questions for Consideration

- Why was the government initially reluctant to impose the OPB recommendations on revaluation?
- What solutions to the Early Leaver Problem did pension providers offer, and why were they not adopted?
- What were the implications of revaluation expected to be for fund finances?

The early technical debate over the 'early leaver problem' was changed fundamentally in April 1983 by an intervention from the Centre for Policy Studies (CPS) think-tank. The CPS's solution to the problem (advanced by Nigel Vinson, a businessman and founding member of the CPS, and Phillip Chappell, a merchant banker at the City-firm Morgan Grenfell) was for all employees to take responsibility for their own pension in the form of a 'personal and portable pension'. They argued in their pamphlet (*Personal and Portable Pensions, For All*) that the most effective means to overcome the 'grave injustice on those who change jobs' was for 'people, if they wish, to be given the chance to run their own personalised pensions as if they were self-employed through segregated funds'. Though employers and employees would both contribute to the fund, when the employee changed jobs the whole fund would go with them to their new job. Responsibility for managing the fund would also be delegated to the individual employee.

Having a personal and portable pension would be fundamentally different from being a member of a defined benefit occupational pension scheme. The former would be run on a 'money purchase' (what we would now called 'defined contribution') basis with the pension paid dependent on contributions and investment returns. Thus both the investment of the fund and risks associated with it would be individualised – a significant departure from the collective investment and risk management of traditional occupational pension funds.

The CPS's 'personal and portable pensions' proposal was presented as a solution to the technical problem facing early-leavers from occupational pension schemes, yet the CPS was motivated by a much more substantial and deeper political and economic agenda. The growth of occupational pensions in the post-war era had resulted in a considerable increase in the size of pension funds. By 1981 pension funds and insurance companies (which were also significant pension providers, not least as administrators of occupational pensions) were recorded as the nominal owners of almost half of all shareholdings on the London Stock Exchange. The primary aim of the Vinson and Chappell proposals was to reverse this post-war trend from personal to institutionalised saving and investment and 'bring all the benefits that come from having a wider capital owning society.' Indeed, as Vinson told the Government's Inquiry into the Provision for Retirement in 1984:

> 'Our proposals to give the option of personal and portable pensions to all did not start from trying to resolve the balance between leavers and stayers [in occupational schemes], but rather because we perceived a lack of personal identification and involvement by the members in the wealth represented by £120 billion worth of pension fund assets.'

The CPS agenda was also a response to rising fears on the right of British politics that the agglomeration of savings funds in a small number of financial institutions was vulnerable to take-over and control by a future government of the radical left (the early-1980s was the peak of the left's domination of the Labour party and of its desire under its 'alternative economic strategy' for the state to take controlling shareholdings in major companies. As Vinson wrote in a letter sent in 1983 – 'when pensions are personalised, they are harder to nationalise!'). Against a background of support for worker representation on company boards (as recommended in 1977 by the majority report of the Bullock Inquiry on Industrial Democracy), trade union control of occupational pension fund boards of trustees was also a concern.

More broadly Vinson and Chappell were worried that institutionalisation of pension savings meant that individuals failed to appreciate or personally identify with the assets they actually owned. Vinson's fear was that 'unless some pension changes are introduced now to restore a greater sense of personal ownership, simplicity, and genuine involvement in the underlying asset, the nation's wealth, increasingly dominated by retirement provision, will be regarded as nobody's money'. In this sense, pension funds were seen by the CPS as an unwelcome intermediation between the market and the individual and, as such, both a constraint on individual freedom and as likely to lead to economic inefficiency via the misallocation of investment.

The CPS proposals cut through the debate on the early leaver problem but their focus on individual responsibility and the promotion of capitalist virtues also helped to secure support from the Prime Minister. She decided to open an inquiry into pension provision that would examine how the CPS ideas might be implemented, an enquiry conducted as part of a wider review of social security undertaken by Norman Fowler. Furthermore, in late 1983 Mrs Thatcher appointed John Redwood (a Rothschild's investment manager) to the Number 10 Policy Unit and then made him its director in January 1984. Amongst other things, he was tasked by her with for overseeing the adoption of personal pensions.

Questions for Consideration

- Is it right to identify the CPS as the progenitor of the 'personal pensions' idea?
- How far was it apparent (and to whom) that the CPS wanted to dismantle institutional pension investment?
- Was Margaret Thatcher personally in favour of 'personal pensions' and, if so, on what grounds? Did she share Vinson/Chappell's criticism of intermediation by occupational pension funds and insurers?
- What was Norman Fowler's first instinct about the 'personal pensions' policy?
- Why did Thatcher forthrightly reject a similar proposal for personalising pensions ('Personal Occupational Pensions' – 'POPs') made by the Central Policy Review Staff in Oct 1982?

The setting up of the Inquiry into Provision for Retirement was announced in December 1983. The committee of enquiry, chaired by Fowler, consisted of Mark Weinberg (founder and director of Hambro Life Assurance), Professor Alan Peacock (an economist, and Vice-Chancellor of the University of Buckingham), Marshall Field (general manager and chief actuary, Phoenix Assurance), Stewart Lyon (general manager of Legal and General; and president of the Institute of Actuaries), and Barney Hayhoe (a junior Treasury minister) – with Nick Montagu (a DHSS civil servant) as the committee's secretary.

The Inquiry's formal terms of reference were 'To study the future development, adequacy and costs of State, occupational and private provision for retirement in the United Kingdom, including the portability of pension rights, and to consider possible changes in those arrangements, taking account of the recommendations of the Select Committee on Social Services in the report on retirement age.'

The initial consultation letter issued by the Inquiry recognised that those strongly advocating personal pensions argued they would give individuals control over their investments and would enhance job mobility, but the Inquiry wanted evidence on a wide range of practical issues that would have to be addressed if they were to be made to work. For example, what would be the implications for existing occupational schemes of employees transferring the capital value of their pension entitlement out to a personal pension, or of new employees choosing not to join a company scheme but to operate their own personal pension; what would the consequences be for financial markets; how would individuals' incentives to save for their old age be affected, and was there a risk of under-provision by individuals failing make sufficient contributions, or investing them unwisely?

After receiving a substantial amount of written evidence, the Inquiry held four public hearings at which it took oral evidence. These demonstrated that, in addition to the CPS, there was strong support for personal pensions from the Institute of Directors (which was attracted by the idea of giving individuals more control over their saving and investments), as well as from the insurers Save & Prosper and Legal & General (each of which envisaged personal pensions as a supplement to existing pension provision and a significant commercial opportunity).

Despite this support, in both written and oral evidence given to the Inquiry there was a substantial degree of opposition to the idea from representatives of occupational pension funds, consumer representatives, the actuarial profession, the Trades Union Congress, and many employers. The principal concerns were that

- personal pensions would destabilise occupational pensions;
- individuals were ill-equipped to manage their own retirement savings;
- defined contribution pensions would be subject to the volatility of the financial markets;
- personal pensions managed by large insurance companies would serve further to 'institutionalise' saving and investment, which would make the UK capital market less dynamic and less entrepreneurial;
- there seemed to be little or no demand for personal pensions from the public at large.

Yet, ultimately, Fowler and the committee of inquiry proceeded to support the creation of personal pensions. All individuals were given the freedom to opt out of their occupational scheme or SERPS and to take up a personal pension with a range of approved providers – indeed, individuals were encouraged to do so by the offer of a 2% National Insurance rebate for those opting to take up a personal pension (the so-called 'bribe' was strongly opposed by the National Association of Pension Funds). Individual freedom to choose a pension provider was increased by affording financial institutions other than insurance companies the ability to provide personal pensions.

However, this was not the radical model envisaged in the original CPS proposals, which had sought to dismantle institutional investment and allow individuals the freedom to invest their own pension fund. Moreover, the new system of personal pensions was installed as an addition to occupational pensions and SERPS not, as its architects and proponents within government such as Redwood and Willets had hoped, as their replacement.

Questions for Consideration

- Were there any voices questioning the qualifications of the DHSS to oversee the implementation of personal pensions?
- Why was the Inquiry into Provision for Retirement set up?
- What did Fowler hope such a public inquiry would achieve?
- How was the inquiry managed? (e.g. the establishment of its terms of reference, membership of the committee, decisions on who to take evidence from, etc.)
- During the enquiry, who were the strongest supporters of the personal pensions proposals, both inside and outside government, and why?
- Who were the principal opponents, and why?
- Did the inquiry reveal tensions within government?
- To what extent was there a linkage (implicit or explicit) between the personal pensions revolution and 'big bang' reform of the City and other reforms, such as privatisation,

3. SERPS

The radicalism of the 'personal pensions' agenda was matched by the Thatcher governments' attempted abolition of SERPS, indeed the two agendas were closely linked. Despite Margaret Thatcher's promise during the 1983 General Election campaign that there were no plans to change SERPS, the government had become increasingly concerned with its long-term cost implications. In a 1981 speech to the National Association of Pension Funds the Chancellor, Sir Geoffrey Howe, had warned that future spending arising from commitments embodied within SERPS could become 'an unsustainable burden' and subsequently the Treasury had undertaken a review of 'the future burden of pensions'. Thatcher's second term offered the opportunity to deal with this burden by abolishing SERPs altogether, replaced it with personal pensions. In 1984, Mrs Thatcher asked Norman Fowler to broaden his inquiry to examine this possibility.

John Redwood and David Willetts at the Number 10 Policy Unit were the strongest advocates for the abolition of SERPS. The latter told the Prime Minister in September 1984:

> 'when SERPS matures early in the next century, it will pose a major threat to the public finances of this country. Its complicated calculations linking pensions to earnings is a classic example of the public sector trying to ape what the private sector should do and can do better. So SERPS has to go.'

The only effective argument made against abolition, suggested Willetts, was the need for a compensatory higher basic pension. But his brief dismissed that argument in short order: 'and if people wish to top it up, they should look to the private sector'.

Despite fears that there would be public and Parliamentary criticism, Redwood and Willetts told Mrs Thatcher they were confident that SERPS abolition would receive strong support from 'the baying hordes of the pension industry, advisers, intermediaries, investors and others' for whom abolition would result in 'a bonanza of business opportunities'. The Prime Minister ultimately agreed and in October the government secretly committed itself to abolishing SERPS (even as the Inquiry into Provision for Retirement continued to consider alternative options). In February, Fowler minuted Mrs Thatcher covering a draft of his green paper on reform of social security. Noting that his proposals would restrict the role of Government to providing a basic pension, with anything above that the responsibility of individuals and their employer, he emphasised the need to 'encourage as wide a coverage of occupational and personal pensions as possible, since we do not want people to rely on means-tested help in addition.'

The proposed green paper was considered by an ad-hoc sub-committee of the Cabinet (MISC 111). Its deliberations were far from easy. Firstly, ministers recognised that if SERPS was to be abolished there would be a risk of creating a vacuum that would remain unfilled, with all that implied for the future in terms of inadequate top-up pension provision and a widespread need for supplementation via state benefits. In a memorandum for MISC 111 Fowler recommended compelling SERPS members to take out a personal pension. This, as Lawson noted, was a rather surprising policy for a government committed to promoting the freedom of the individual. Nonetheless after some debate it was decided to adopt compulsion.

That, however, produced a major row with Nigel Lawson, then Chancellor of the Exchequer, in April 1985. His objection was that for compulsory personal pensions would embody significant exchequer costs because unlike contributions to SERPS they would qualify for tax relief, something he had woken up to rather late in the day. Furthermore, Lawson privately argued that compulsion would add to employer costs and, by thus alienating business, would amount to 'an electoral deathwish' for the Conservatives.

In the face of the Chancellor's explosion, the Prime Minister havered but she was advised in strong terms by her Policy Unit that modification of SERPS to reduce its benefits, the alternative option on the table, would 'give us the worst of both worlds'. The system would be no less complex, there would be little incentive for employers to expand their pension provision, and

> 'most important of all we should be missing the opportunity – probably the last opportunity – of giving everyone the chance of a private pension. We should have accepted for good the dominance of the state scheme – and we would have undermined one of the main thrusts of the whole review.'

Even as the Cabinet discussed Fowler's social security green paper over two weeks in May, policy on SERPS remained unclear. A compromise was eventually agreed under which its abolition would be phased in between 1987 and 1990 and this approach informed the green paper on Reform of Social Security when it was published on 3 June 1985.

The green paper dismissed the idea of dealing with the prospective cost of SERPS by cutting its benefits as a negative policy, reducing the scope of state provision without putting anything in its place (Vol 1, para. 7.12). Instead, it proposed that SERPS would be abolished over three years for all but the relatively small number of members within fifteen years of retirement. Younger people in permanent employment (other than very low earners receiving less than an amount to be determined) would be required to have either an occupational or personal pension with a minimum contribution of 4% of earnings, of which at least 2% would come from their employer. Accrued rights in occupational pensions would be transferable to a personal pension on change of employment. Existing SERPS rights would be honoured but, because it would no longer exist for those compelled to take out a personal pension, the contracted-out national insurance rebate would cease, something that the Green Paper argued would encourage the development of defined contribution occupational schemes because it would remove the guaranteed minimum pension requirement (Vol. 2, paras 1.43-52). Inflation proofing of occupational pensions would continue, though its exact mechanics would be subject to consultation (para 1.53).

Questions for Consideration

- What motivated Howe's speech to the 1981 NAPF conference?
- How committed were the Conservatives to abolishing SERPS prior to 1984?
- What was Norman Fowler's attitude to SERPS (in opposition and in government)?
- How did the Treasury reconcile the short-term costs with the long-term savings of abolishing SERPS?
- To what extent did the debate within government include consideration of possible future public spending pressures arising from the reduction in state pension provision that abolition of SERPS would represent?
- Who were the most vocal opponents of SERPS abolition during the Inquiry? Who were the most effective?
- How did the government reconcile compulsory personal pensions for those in SERPS with its desire to promote individual freedom?

4. From the Green Paper to Legislation in 1986

Although the 1985 green paper proposed the abolition of SERPS evidence to the Fowler Inquiry had already revealed considerable opposition to the idea of abolishing SERPS. The reaction to the green paper should therefore have been predictable. The head of the National Association of Pension Funds Parliamentary Committee, for example, described the proposals in the green paper as 'undesirable, unworkable and destroying pensions stability', and the NAPF flirted with the idea of refusing to cooperate on the technical detail of implementation. The CBI declared itself 'implacably opposed' to SERPS abolition and a long list of other employers' organisations thought likewise (a survey of employers found only two per cent in favour of abolition). The TUC was also adamantly opposed. Strong doubts were also evident amongst actuaries (included the Association of Consulting Actuaries, Institute of Actuaries and Faculty of Actuaries). Insurers, most notably the Prudential also proved highly unenthusiastic. The principled argument against abolition was that it would destroy the hard-won political consensus on pensions that had been established under the last Labour government and which, it was argued, had created certainty and stability for pension providers and security for workers irrespective of whether they were members of occupational pension schemes. Insures, however, also had commercial grounds for opposition: compelling SERPS members to take out personal pensions would mean selling many millions of personal pensions to Britain's legion of low-paid workers, an administratively very costly and inherently unprofitable enterprise.

Surprisingly, the government seems to have been taken aback by the strength of feeling. Opposition from the unions and from the pension funds was to be expected, but the continuing opposition of employers came as a surprise. The government was particularly troubled by opposition from insurers that it had believed it could rely on for support. Firms such as Legal and General and Save and Prosper had indicated their strong support for personal pensions not just to the Inquiry but to the Policy Unit, and had helped to shape the policy proposals. Yet they proved adamantly opposed to compelling those no longer covered by SERPS to take out a personal pension. That was a major blow, and Fowler informed the relevant Cabinet committee in October 1985 that 'these reactions from bodies who would normally be firm supporters and on whom we will depend heavily on getting new arrangements in place of lead me to think again about the path we have chosen.'

Not surprisingly, the chorus of censure (which, of course, had its counterpart internally in terms of Lawson's criticisms) had its effect. Fowler later wrote of how 'dangerously isolated' he had been left by the overwhelmingly negative responses to the consultation, his sense that political support within the government for his reform proposals was ebbing away, and his recognition that to persist with his plans would be 'an extremely doubtful venture'. By the end of September 1985, the Policy Unit was complaining to Thatcher that Fowler was 'trying to escape from the MISC 111 deal'. That escape attempt was successful. Ultimately the government was forced to modify its proposals on SERPS along the lines outlined by those critics who were prepared to countenance reform if not abolition. When the White Paper appeared in December abolition of SERPS had given way to amendments to reduce its generosity (with the aim of securing savings of £9.5bn by 2033 as demanded by MISC 111) such as basing pension rights on average lifetime earnings (rather than on the best 20 years); permitting widows to inherit only half of their husband's pension; and reducing the accrual rate from 25 to 20 per cent for those retiring after 2010 (with tapering for those retiring between 2000 and 2010). SERPS members would be allowed to contract-out of SERPS into an 'approved personal pension'. The aim now was to drain SERPS of members over the long-term via a combination of reduced benefits and a rebate on national insurance to incentivise the taking out of a personal pension. The contracting-out rebate and the national insurance incentive would also be available to those choosing to substitute a personal pension for an occupational scheme (and employers would no longer be able to compel employees to join the scheme)

<u>Questions for Consideration</u>

- Did Norman Fowler mishandle the inquiry by making opposition to SERPS abolition too easy? Or was his inquiry a means to defend it? Or perhaps a means by which interest groups might be brought to an understanding that SERPS needed to be cut back if not abolished?
- Why did the government not foresee the strength of opposition to SERPS abolition? Or was it just certain sections of the government (most notably the Policy Unit) that failed fully to appreciate the strong attachments to SERPS? More specifically:
  - How general within the actuarial profession was opposition to the abolition of SERPS?
  - Did actuarial concerns about SERPS, and about the likely failure of personal pensions to fill the gap, create tensions within government between the Government Actuary's Department and proponents of radical reform?
  - Why exactly did the pension industry not see SERPS abolition and its replacement by personal pensions as a bonanza of business opportunities? Why did its opposition to compulsory personal pensions come as such a surprise to the government?
- Why was there not more opposition to the implemented cuts to SERPS benefits given the prospective long-term effects on its members?

Ultimately, therefore, the White Paper represented a failure to fulfil the government's objective of SERPS abolition. Having stepped back and reconceptualised reform around cuts to SERPS coupled with incentives to take out a personal pension its proposals were translated into legislation in 1986 with relative ease (the key legislation is the Social Security Act 1986 and the Financial Services Act 1986). This, therefore, was more evolution than revolution – the addition of another element to the range of options for topping up the basic state pension (and, of course, a significantly more complex system overall, not least in terms of interactions between its various elements).

The failure to replace SERPS represented a major blow to those within government (most notably the Policy Unit) who had vigorously advocated its abolition. Yet, though SERPS remained, the 1986 legislation effectively subjected it to death by slow strangulation. As Eric Short, a former actuary, then pensions correspondent at the *Financial Times*, presciently noted, people retiring in the next century who relied solely on the state for their pension would 'be in for a shock'. They would not be the only ones for so would the large number of consumers mis-sold personal pensions in the late-1980s and early-1990s – though that is a story for another day.

Questions for Consideration

- How well did the various Government departments co-ordinate on personal pension legislation once the white paper had been published?
- How was the 1986 reform of pensions viewed within government?
- How positive was the view of those reforms in the pensions industry?
- What did the architects and principal proponents of a personal pensions revolution think of the final reform?
- Why did the 1986 Social Security Act prevent individuals from directly investing their own pension fund?
- How did government view the relationship between personal pensions and the 'Big Bang' 'deregulation' of the financial sector?
- Why did the government fail to regulate adequately the personal pensions market?
- What was the legacy of the 1986 reform package?
- Did the 1986 reform package leave Britain with the 'worst of pension worlds' as John Redwood had predicted?

Further information

For more information, please contact the principle investigator on the University of Bristol / AHRC Thatcher's Pension Reforms research project:

Professor Hugh Pemberton (h.pemberton@bristol.ac.uk).